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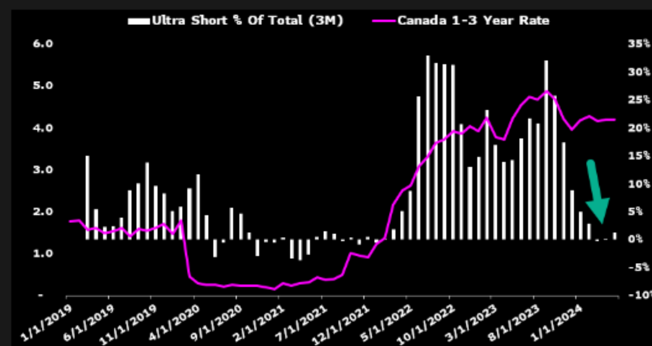
Canada's Rate Cut Could Broaden ETF Investors' Reach for Yield

The Bank of Canada's recent cut in its benchmark interest rate will likely spur investors to move more cash out of short-duration ETFs and into yield-seeking alternatives. In anticipation of this shift, issuers have been bringing more yield-focused ETFs to market. (06/10/24)

1. ETF Cash Dash in Canada Could Be Ending

Though Canada's interest rates remain relatively high following the recent cut, flows into short-duration ETFs have dwindled, and we expect them to continue to do so given the best yields are likely in the rearview mirror. In the past three months, short-duration ETFs accounted for less than 5% of total flows, well below the high-water mark of 35%. (06/10/24)

Ultra-Short-Duration ETFs as % of Total Flows



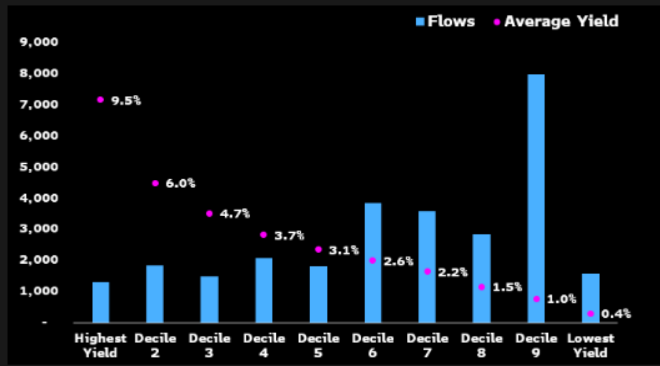
Source: Bloomberg Intelligence

Data Exhibit

2. Possible Turn Toward Other Yield Alternatives

With interest rates expected to drop, investors might start looking to higher-yielding alternatives to compensate. The chart shows that investors in Canadian ETFs have been allocating to strategies stuck at the yield level of the S&P 500 Index (ninth decile), with yield a secondary consideration given short-duration cash offered in excess of 4.5% annually. Flows could accelerate into higher-yielding categories, especially in the top three deciles, which have yields exceeding that of the average short-duration Canadian high-interest-savings ETF. (06/10/24)

Flows by 12-Month Yield Rank



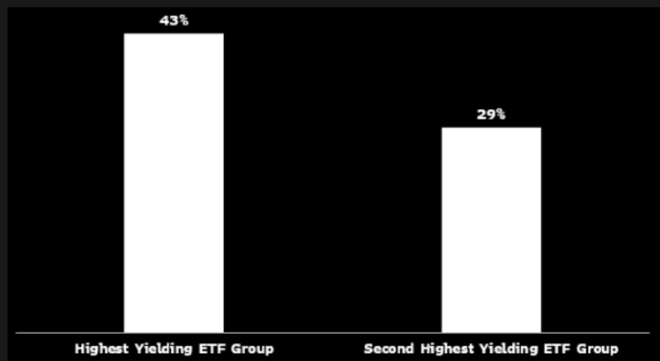
Source: Bloomberg Intelligence

Exhibit

3. Issuers Trying to Capitalize on Yield Chase

Canadian issuers have stepped up launches of covered-call and yield-focused ETFs to offer better-yielding options for investors seeking to get ahead of lower interest rates. In the top-yielding decile, 43% of ETFs have come to market in just the past two years. The Hamilton Canadian Financials Yield Maximizer ETF (HMAX), launched in early 2020, has a current yield in excess of 15%. (06/10/24)

% of Top-Yielding ETFs Launched in Last 2 Years



Source: Bloomberg Intelligence

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